Gloria Engineering Company

November 27, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	3.67	3.75	[ICRA]BBB-(Stable); Reaffirmed
Fund-based - Working Capital Facilities	13.00	13.00	[ICRA]BBB-(Stable); Reaffirmed
Non-fund Based - Working Capital Facilities	5.00	0.00	-
Long Term/ Short Term Unallocated	1.33	5.00	[ICRA]BBB-(Stable)/ [ICRA]A3; Reaffirmed
Total	**23.00**	**21.75**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation continues to factor in the extensive experience of the partners in the auto ancillary business along with the firm's long association with Tata Motors Limited (TML). The ratings also consider the firm's healthy revenues in FY2018 along with healthy profitability levels, comfortable capitalisation and debt coverage indicators, and low working capital intensity of operations.

The ratings, however, remain constrained by the firm's exposure to a high customer concentration risk as more than 60% of the total sales are derived from a single original equipment manufacturer (OEM) customer. Further, the ratings are constrained by the firm's vulnerability of profitability to fluctuations in steel prices, and exposure of operations to cyclicality inherent in the auto industry. The ratings continue to note the risk associated with the partnership status of the entity, including the risk of significant capital withdrawal, which could have a material impact on the firm's credit quality.

Outlook: Stable

ICRA expects Gloria Engineering Company (GEC) to continue to benefit from the extensive experience of its partners. The outlook may be revised to Positive if a substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, or if any major debt-funded capital expenditure, or if any substantial capital withdrawals by partners or, a stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of partners in auto ancillary business - Established in 1982, GEC is an Agrawal family-owned partnership firm based out of Pune, Maharashtra. The firm's key partners have extensive experience of more than 20 years in the auto ancillary business. This has helped the firm establish strong business ties with established original equipment manufacturers (OEMs), mainly TML and Mahindra & Mahindra Limited (M&M).

Extensive relationship with TML, significant share in supply of some components to TML - The firm has been associated with TML since inception and remains a key vendor for some components, namely fitment products supplied to the principal, especially for its commercial vehicles (CVs). TML's share in the firm's gross revenues remained high in FY2018 at 64% (68% in FY2017). The firm's manufacturing units also remain strategically located in the vicinity of TML's key domestic manufacturing units in Pune, Lucknow and Jamshedpur among others.

Robust growth in OI in FY2018, while maintaining healthy profitability indicators; comfortable capitalisation and debt coverage indicators - GEC registered a 43% YoY growth in operating income (OI) in FY2018 to Rs. 249.94 crore due to increased orders from its key customer, TML, on the back of increased demand for CVs in the domestic market. The growth has continued in the current year with GEC reporting revenues of Rs. 175 crore during the seven-month period ended October 31, 2018. GEC's operating profit margins remained healthy at 10.67% in FY2018, though it declined marginally from 11.46% in FY2017 due to increased steel procurement cost. The net profit margins also remained healthy at 6.04% in FY2018 against 6.35% in FY2017. The capital structure remained comfortable with a gearing of 1.04 times, while the debt coverage indicators remained healthy as reflected by interest coverage of 9.51 times, NCA/Total Debt of 40%, Total Debt/OPBDITA of 1.08 times and TOL/TNW of 2.42 times as on March 31, 2018.

Low working capital intensity - The working capital intensity remained low at 11% in FY2018, mainly because of effective inventory management. The firm implements an order-backed inventory policy which led to low inventory levels. GEC procures steel from JSW Steel Limited and Tata Steel Production and Distribution Limited (TSPDL) through channel financing/inventory financing mechanisms, wherein the payback period remains 120 days and 75 days respectively. It extends a credit period of 60 days to its customers.

Credit challenges

High client concentration, TML continues to dominate customer mix - TML continues to dominate the firm's customer mix with 64% contribution to the total sales in FY2018 (68% in FY2017 and 61% in 3M FY2019). Any weakening in order flow from TML can impact GEC's revenues, though the firm is trying to diversify its sales by tapping other customers.

Vulnerability of profitability to raw material price movements - Steel products (like hot rolled sheets, cold rolled sheets, mild steel plates and ERW-5 among others) remain the key raw material for manufacturing various sheet metal products and constitute ~90% of the total purchase mix. GEC's profitability remains vulnerable to any unfavourable movements in steel prices that cannot be entirely passed on to the customers.

Exposed to cyclicality inherent in auto industry - GEC primarily caters to the automobile industry and manufactures different products used in the light and heavy CVs. Thus, the firm remains exposed to cyclicality in the auto industry as evidenced from the volatility in the topline over the past fiscals.

Vulnerable to capital withdrawal risk by partners - ICRA notes that GEC is a partnership firm and any substantial capital withdrawals by partners can impact its net worth and hence, the capital structure.

Liquidity Position

The cash flow from operations remained positive in FY2018 due to healthy profitability but was lower compared to FY2017 due to increased working capital requirement to support the augmentation in scale. The free cash flows remained negative in FY2018, in line with the past two fiscals, due to capital withdrawals from the business and outflow towards regular capex. The firm as on March 31, 2018 had undrawn working capital bank lines of Rs. 3.50 crore against sanctioned cash credit limits of Rs. 13.00 crore, providing some headroom for liquidity. The debt repayments for the coming fiscals stand minimal at Rs. 0.95 crore in FY2019 and Rs. 0.39 crore in FY2020, which are expected to be met through internal accruals.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	None
Consolidation / Standalone	The rating is based on the standalone financial profile of the issuer.

About the company

Established in 1982, Gloria Engineering Company is an Agrawal family-owned partnership firm based out of Pune. The firm manufactures sheet and pressed metal components, primarily catering to TML for its CV segment.

In FY2018, the company reported a net profit of Rs. 15.10 crore on an operating income (OI) of Rs. 249.94 crore, compared to a net profit of Rs. 11.05 crore on an OI of Rs. 174.18 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	174.18	249.94
PAT (Rs. crore)	11.05	15.10
OPBDIT/OI (%)	11.46%	10.67%
RoCE (%)	40%	48%
Total Debt/TNW (times)	1.19	1.04
Total Debt/OPBDIT (times)	1.19	1.08
Interest Coverage (times)	10.97	9.51

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 -
1	Term Loan	Long Term	3.75	3.23	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	-
2	Cash Credit	Long Term	13.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	
3	Letter of Credit	Short Term	0.00	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+	-
4	Unallocated	Long Term/Short Term	5.00	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Oct-2016	NA	Jan- 2023	3.75	[ICRA]BBB- (Stable)
NA	Cash Credit	NA	NA	NA	13.00	[ICRA]BBB- (Stable)
NA	Letter of Credit	NA	NA	NA	0.00	[ICRA]A3
NA	Unallocated	NA	NA	NA	5.00	[ICRA]BBB-/[ICRA]A3

Source: Gloria Engineering Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable		

Source: Gloria Engineering Company

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